

Message Text

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PAGE 01 OTTAWA 01948 232059Z

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FM AMEMBASSY OTTAWA

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E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: NATURAL GAS EXPORT PRICE INCREASE: FLOW-BACK
TO PRODUCERS

1. AS DEPT AWARE, ONE OF MAJOR ARGUMENTS MADE BY GOC FOR INCREASE IN NATURAL GAS EXPORT PRICE TO \$1.60 PER MCF RELATED TO NEED FOR FLOW-BACK OF ADDITIONAL REVENUES TO ENABLE PRODUCERS TO EXPLORE FOR AND DEVELOP NEW RESERVES. DURING COURSE OF MAY 6. BUDGET HEARINGS BY COMMONS STANDING COMMITTEE ON NATIONAL RESOURCES AND PUBLIC WORKS, NATIONAL ENERGY BOARD MEMBER EDGE TESTIFIED ON THIS MATTER AND PROVIDED THE FOLLOWING ANALYSIS (IN SUMMARY) OF WHAT THE PRICE INCREASE WILL MEAN IN CONCRETE TERMS TO ALBERTA PRODUCERS.

2. INITIALLY, EDGE STATED THAT ON THE BASIS OF AN INCREASE IN NATURAL GAS EXPORT REVENUES OF \$583 MILLION ON AN ANNUAL BASIS (BASED ON \$1.60 PER MCF PRICE), ABOUT \$439 MILLION WOULD BE ATTRIBUTABLE TO ALBERTA PRODUCERS, WITH THE BALANCE FLOWING TO B.C. THROUGH THE BRITISH COLUMBIA PETROLEUM
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PAGE 02 OTTAWA 01948 232059Z

CORPORATION.

3. THIS APPROXIMATE \$439 MILLION, HE SAID, "WILL ATTRACT AN INCREMENTAL ROYALTY RATE OF 50 PERCENT IN ALBERTA" (\$218 MILLION), AN ALBERTA INCOME TAX OF ROUGHLY 11 PERCENT AFTER THE ROYALTY (\$24 MILLION), AND A FEDERAL TAX OF ABOUT 28 PERCENT ON THE GROSS AMOUNT (\$123 MILLION), LEAVING ABOUT \$72 MILLION, OR 16.5 PERCENT OF THE PROCEEDS IN THE HANDS OF THE GAS PRODUCERS.

4. UNDER LATER QUESTIONING, EDGE STATED THAT THE WHOLE OF THE FEDERAL SHARE OF \$123 MILLION COULD BE DEFERRED BY EXPLORATION AND RELATED EXPENSES WHICH WOULD STIMULATE PRODUCTION, IF CARRIED OUT DURING THE TAX YEAR. EDGE ALSO ADDED THAT THE ABOVE CALCULATIONS DID NOT RPT NOT INCLUDE CERTAIN ALBERTA INCENTIVE SCHEMES TO STIMULATE NEW PRODUCTION, THE MOST IMPORTANT OF WHICH IS THE INCENTIVE ROYALTY ON "NEW" GAS, (COMMENT: "NEW" GAS IS THAT PRODUCED FROM A WELL LICENSED BY THE ALBERTA CONSERVATION BOARD SUBSEQUENT TO JANUARY 1, 1974), WHICH IS "BETWEEN 30 AND 35 PERCENT" ON PRESENT PRICES AS OPPOSED TO THE 50 PERCENT INCREMENTAL CHARGE NOTED IN PARA 3 ABOVE.

5. ON THE BASIS OF THE ABOVE AND BY EMBASSY CALCULATION, IN THEORY ALBERTA NATURAL GAS PRODUCERS COULD REPEAT COULD REALIZE A MAXIMUM FLOW-BACK IN ANY ONE YEAR AT EXPORT PRICES OF \$1.60 PER MCF OF APPROXIMATELY \$260 MILLION, OR NEARLY 60 PERCENT OF THE TOTAL REVENUE INCREASE OF \$439 MILLION. PORTER

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